

Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

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Japan: Financing of Trading Companies

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Over the last decade, Japan's nine largest trading companies have been forced to wean themselves from financial dependence on the industrial groups to which they belong. In 1974 the Ministry of Finance gave all Japanese banks six years to pare loans to individual trading companies, usually the financial institutions' largest clients, to 20 percent of bank capital and reserves. Trading companies responded to the Ministry's loan ceilings by diversifying their sources of indirect financing--reducing borrowings from the bank associated with their industrial group and instead borrowing lesser amounts from a greater number of banks.

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As an alternative to bank loans, Japanese trading companies have also increased their reliance on direct financing through convertible Eurobond issues. Some firms, such as Mitsubishi Corporation's American subsidiary, have issued corporate paper (CP) in the US market. They would like to issue CP in Japan as another way to reduce dependence on bank loans but are blocked by Finance Ministry refusal to permit such issues. Finally, trading companies have increased direct equity issues on the Tokyo Stock Exchange.

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This memorandum was prepared by Japan Branch, Northeast Asia Division, Office of East Asian Analysis. Information available as of 8 May 1985 was used in its preparation. Comments and questions are welcome and may be directed to the Chief, Japan Branch, Northeast Asia Division, OEA,

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Table 1

Japanese Trading Companies: Financing Sources

<u>Trading Company</u>	<u>Major Lenders</u> (Percent of total company borrowing as of 31 March 1981)	<u>Major Shareholders</u> (As of 1 November 1981)	<u>Industrial Group's Influential Power*</u> (As of 1 November 1981)
Mitsui and Company	Industrial Bank of Japan - 4.8% Mitsui Bank - 4.7%	Mitsui Bank - 5.9% Fuji Bank - 4.7%	Mitsui Group - 49.7%
Mitsubishi Corporation	Mitsubishi Bank - 5.4% Mitsubishi Trust & Banking - 4.6%	Tokio Marine & Fire Insurance - 6.2% Mitsubishi Bank - 6.1%	Mitsubishi Group - 72.9%
Sumitomo Corporation	Sumitomo Bank - 11.3% Sumitomo Bank & Trust - 8.8%	Nippon Electric - 5.0% Sumitomo Bank - 4.9%	Sumitomo Group - 91.0%
Nissho Iwai	Sanwa Bank - 9.8% Dai-Ichi Kangyo Bank - 8.3%	Sanwa Bank - 6.8% Dai-Ichi Kangyo Bank - 6.6%	Sanwa Group - 33.0%
Toyo Menka (Tomen)	Tokai Bank - 11.7% Mitsui Bank - 6.9%	Tokai Bank - 5.1% Dai-Ichi Mutual Life Insurance - 4.1	Tokai Group - 23.2%
Marubeni Corporation	Fuji Bank - 6.3% Yasuda Trust & Banking - 4.4%	Fuji Bank - 6.0% Yasuda Fire & Marine Insurance - 5.2%	Fuyo Group - 44.8%
C. Itoh and Company	Long-Term Credit Bank of Japan - 7.0% Dai-Ichi Kangyo Bank - 6.6%	Dai-Ichi Kangyo Bank - 5.9% Sumitomo Bank - 5.1%	Dai-Ichi Kangyo Bank Group - 24.9% Sumitomo Group - 22.2%
Kanematsu-Gosho	Dai-Ichi Kangyo Bank - 9.5% Mitsui Trust & Banking - 4.2%	Bank of Tokyo - 10.0% Dai-Ichi Kangyo Bank - 10.0%	Dai-Ichi Kangyo Bank Group - 21.5%
Nichimen Corporation	Sanwa Bank - 15.5% Toyo Trust & Banking - 5.9%	Sanwa Bank - 6.4% Bank of Tokyo - 5.9%	Sanwa Group - 40.3%

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* Ratio of group's shareholding to the total shares held by the top 10 shareholders. For information on key members of industrial groups and pulp and paper manufacturers in each group, see Table 2.

Table 2

Industrial Groups: Top Members and Pulp and Paper Companies

	<u>Mitsubishi Group</u>	<u>Mitsui Group</u>	<u>Sumitomo</u>	<u>Fuyo</u>	<u>Dai-Ichi Kangyo</u>	<u>Sanwa</u>
Key Members	<ul style="list-style-type: none">① Mitsubishi Corp. (trading company)① Mitsubishi Heavy Industries① Mitsubishi Bank	<ul style="list-style-type: none">① Mitsui Bank① Mitsui and Company (trading company)① Mitsui Real Estate Development	<ul style="list-style-type: none">① Sumitomo Bank① Sumitomo Chemical① Sumitomo Metal Industries	<ul style="list-style-type: none">① Fuji Bank	<ul style="list-style-type: none">① Dai-Ichi Kangyo Bank	<ul style="list-style-type: none">① Sanwa Bank
Paper and Pulp Companies	<ul style="list-style-type: none">① Mitsubishi Paper Mills	<ul style="list-style-type: none">① Oji Paper Company① Tokyo Serofan① Takasaki Paper① Ojujo Paper① Honshu Paper	<ul style="list-style-type: none">① Sanko Paper① Settsu Paper Board① Rengo	<ul style="list-style-type: none">① Sanyo-Ko Industry① Nishima Paper Mills① Chiyoda Shigyo	<ul style="list-style-type: none">① Hokuetsu Paper Mills	25X1

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